

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-11 ISO-00 AID-05 CIAE-00 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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P R 081331Z MAY 78
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC PRIORITY 0902
USDOC WASHDC PRIORITY
INFO AMEMBASSY ABU DHABI
AMEMBASSY ATHENS
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY TEHRAN

LIMITED OFFICIAL USE SECTION 1 OF 2 KUWAIT 2763

USDOC FOR ASST SEC WEIL; DEPT FOR ASST SEC KAZZ AND NEA/ARP

DEPT PASS TREASURY

E.O. 11652: N/A
TAGS: BEXP, KU
SUBJ: NATIONAL EXPORT POLICY: WHY ARE US SUPPLIERS DISREGARDING
\$1.1 BILLION SALES OPPORTUNITY?

REF: (A) KUWAIT 2510, (B) KUWAIT 1958, (C) KUWAIT 1707, (D)
KUWAIT 1683 (NOTAL), (E) KUWAIT 1526

1. SUMMARY: LAST NINE MONTHS SPENT IN TRYING TO INTEREST U.S.
TURBINE SUPPLIERS TO BID ON \$1.1 BILLION POWER PLAN PROJECT
IN KUWAIT SO FAR ARE NOT PAYING OFF. U.S. FIRMS HAVE RECITED A
LITANY OF "COMPLICATIONS", "PROBLEMS" AND "DIFFICULTIES"
ALL OF WHICH SEEM SOLVABLE. MINISTRY OF ELECTRICITY AND WATER
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HAS INDICATED EVERY INTENTION OF TRYING TO SMOOTH THE PATH FOR
U.S. FIRMS, EXPRESSING KEEN INTEREST IN GETTING U.S. SUPPLIER
IN WHAT HAS BEEN JAPANESE PRESERVE. LATEST EFFORT BY MINISTRY IS
OFFICIAL ANNOUNCEMENT EXTENDING BID DEADLINE TO JULY 16, 1978.
PROJECT MANAGER STATED REASON FOR EXTENSION "AS ACCOMMODATION
TO G.E.". PROJECT MANAGER ALSO STATED TIME FOR COMPLETION OF
CONTRACT HAS BEEN EXTENDED TO 36 MONTHS. G.E. TEAXS THAT VISITED

KUWAIT RECENTLY EVINCED ONLY TEPID INTEREST IN BIDDING. USDOC SHOULD MAKE EEXTRA EFFORT TO GET U.S/ FIRMS INTO THE GAME. A BILLION DOLLAR PLUS OPPORTUNITY IS WORTH A SENIOR OFFICIALS' PHONE CALL TO CHAIRMAN OF G.E., AND OTHER POTENTIAL SUPPLIERS. END SUMMARY.

2. WE NOW HAVE SPENT NINE MONTHS TRYING TO INTEREST U.S. FIRMS IN A MAJOR, 1.1 BILLION DOLLAR POWER PROJECT IN KUWAIT, THE DOHA WESZ POWER STATION. A FEW OF OUR CABLES ON THIS MAJOR TRADE OPPORTUNITY ARE REFERENCED. TWO PART TENDER BY THE MINISTRY OF ELECTRICITY AND WATER (MEW) HAS BEEN OUT SINCE MID-MARCH. TO DATE ONE MAJBR U.S. TURBINE SUPPLIER, WESTINGHOUSE, HAS DECIDED NOT TO BID, WHILE ANOTHER, G.E., IS STILL UNDECIDED. WE KNOW OF ONLY ONE U.S. SUPPLIER (BABCOCK & WILCOX) FOR BOILER PORTION OF CONTRACT, PLANS TO BID. WE FIND IT INCREDIBLE THAT U.S. SUPPLIERS ARE SO UNINTERESTED IN THIS OPPORTUNITY, AND MUST ASK THE QUESTION "WHAT IS THE POINT OF THE USG TRYING TO PROMOTE EXPORTS IF U.S. SUPPLIERS ARE NOT INTERESTED?". TWO VERY LARGE AMERICAN ENGINEERING/CONTRACTING FIRMS, BECHTEL AND J. R. MCDERMOTT, ARE GOING TO BID ON PROJECT BUT HAVE BEEN UNABLE TO ELICIT ANY INTEREST ON PART OF G.E. OR WESTINGHOUSE TO SUPPLY THEM WITH NEEDED EQUIPMENT, WHICH WILL ACCOUNT FOR LARGE PORTION OF COST OF PROJECT (AND EXPORT VALUE TO U.S.). IN WHAT FOLLOWS WE DETAIL THE SOMEWHAT TEPID APPROACHES OF U.S. TURBINE SUPPLIERS TO THIS BILLION DOLLAR PLUS OPPORTUNITY.

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3. BOTH G.E. AND WESTINGHOUSE RAISED THE FOLLOWING POINTS AS FACTORS INFLUENCING THEIR CONSIDERATION OF WHETHER TO ACTIVELY PURSUE THE TURBINE/GENERATOR SALE OR NOT.

4. SHORT DEADLINES. PREVIOUSLY ANNOUNCED CLOSING DAZE FOR BIDS WAS MAY 28, ADMITTEDLY A SHORT TIME FOR PROJECT OF THIS SIZE, BUT THE JAPANESE, FROM ALL INFORMATION AVAILABLE, PLANNED TO MEET THE DEADLINE. WE SEE NO REASON WHY U.S. COMPANIES COULD NOT HAVE DONE SAME. IN ANY EVENT MINISTRY ANNOUNCED ON MAY 1 AN EXTENSION OF BID DEADLINE UNTIL JULY 16, 1978. PROJECT MANAGER TOLD EMBOFF "THIS WAS AN ACCOMMODATION TO RECENT COMPLAINTS OF U.S. FIRM (G.E.)". IN ADDITION MINISTRY HAS EXTENDED TIME ALLOWED FOR COMPLETION OF CONTRACT TO 36 MONTHS, AGAIN AT G.E. URGING.

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AXEMBASSY BRUSSELS 0545
AXEMBASSY LONDON 3030
AMEMBASSY TEHRAN

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5. PAYMENT IN KUWAIT DINARS (KD). U.S. SUPPLIERS OBJECTED TO PAYMENT IN KD ALTHOUGH THE DINAR HAS SHOWN A STEADY AND RECENTLY MARKED APPRECIATION AGAINST THE DOLLAR. THEY ALSO DESCRIBED DIFFICULTY IN OBTAINING A GUARANTEED FORWARD CONTRACT FOR MORE THAN ONE YEAR IN KD. AFTER MOST RECENT VISIT BY G.E. FINANCIAL SPECIALIST, LOCAL BAFKS INDICATED THEY WOULD GLADLY PROVIDE NECESSARY FORWARD MARKET IF U.S. FIRMS SO DESIRED (CONFIRMING EARLIER DISCUSSION IN CONNECTION WITH WESTINGHOUSE).

6. HIGH BID BOND AND PERFORMANCE BOND OUTLAY. STIFF COMMERCIAL TERMS ARE A FACT OF LIFE IN MIDDLE EAST MARKEZ, BUT KUWAIT HAS SHOWN FLEXIBILITY IN PAST TO ACCOMMODATE CONTRACTORS IF THEY DO GET INTO TROUBLE. CLEARLY KUWAUT WANTS THE PROJEKT BUILT. THEY DO NOT WANT TO COLLECT A GUARANTY.

7. SPECIFICATIONS DRAWN TO SIEMENS TURBINS. GERMAN CONSULTANT TO MEW (WITH WHOM MEW IS QUITE UNHAPPY) HAS DRAWN SPECS TO LIMITED OFFICIAL USE

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FIT SIEMEFS MACHINES. PROJECT MANAGER AT MEW HAS STATED UNOFFICIALLY THAT COMPARABLE U.S. STANDARD TURBINES WILL RECEIVE FUWL CONSIDERATION AS MEWSIS NOT LOOKING TO EXCLUDE ANYONE.

8. PRICE COMPETITION - LOW BID. BOTH U.S. SUPPLIERS QUESTIONED WHETHER THEY COULD BE COMPETITIVE WHERE PRICE WAS A MAJOR FACTOR

IN MEW DECISION IN SELECTING SUPPLIER. IN RECENT MEETING WITH MINISTER OF ELECTRICITY & WATER G.E. EXECUTIVES ASKED IF MEW "WOULD BE WILLING TO PAY A PREMIUM TO GET G.E. AS THE ORIGINATOR OF THE TECHNOLOGY INVOLVED"* THE MINISTER SURPRISINGLY STATED THAT IF G.E. WERE ONLY 10 OR 15 PERCENT HIGH, THEN THE LOW PRICEMIGHT NOT BE DETERMINATIVE. HOWEVER, IF THE GAP WAS 30-40 PERCENT THEN MINISTRY WOULD NOT HAVE MUCH FLEXIBILITY. G.E. STATED THEY GAVE MINISTER IMPRESSION THEY WERE NOTGOING TO BID, AND THAT HE OBSERVED MEW "DID NOT THINK G.E. WAS SERIOUS ABOUT BUSINESS IN KUWAIT".

9. SEFIOR BECHTEL OFFICIAL RECENTLY TOLD AMBASSADOR THAT BECHTEL PLANS TO SUBMIT A PROPOSAL. COMPANY WOULD PREFER TO INCLUDE U.S. BOILERS AND TURBINES IN ITS PROPOSAL, BUT BECAUSE U.S. FIRMS HAVE FAILED TO GIVE IT QUOTATIONS, BECHTEL WILL BE FORCED TO GO TO JAPANESE SUPPLIERS. BECHTEL OFFICIAL COMMENTED THAT, UNLIKE FOREIGN COMPETITORS, U.S. SUPPLIERS APPEAJED TO BE "VERY RIGID" IN THEIR APPROACH TO SUPPLYING POWER GENERATING EQUUPMENT ABROAD. HE, AND WE, FIND THIS INCREDIBLE, SINCE U.S. FIRMS WOULD BESSUPPLYING EQUIPMENTIN U.S. FOR BECHTEL, WHICH WOULD BE ASSUMING FOREIGN EXCHANGE AND OTHER RISKS G.E. AND OTHERS HAVE BEEN COMPLAINING ABOUT.

10. MCDERMOTT INCORPORATED, A LARGE CONSTRUCTION MANAGEMENT FIRM, TOLD EMBOFF THAT HIS FIRM ASKED BOTH WESTINGHOUSE AND G.E. TO TEAM MCDERMOTT'S CONSIDERABLE CONSTRUCTION MANAGEMENT EXPERIENCE WITH THEIR SUPPLY OF THE TURBINES IN A PACKA3 ?8\$.
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MCDERMOTT HAS DECIDED NOT TO PURSUE THE TURBINE PORTION OF THIS PROJECT ANY FURTHER, AS BOTH G.E. AND WESZINGHOUSE STATED THEY DID NOT BELIEVE THEY COULD BE COMPETITIVE. MCDERMOTT IS NOW CONCENTRATING ITS EFFORTS THROUGH BABCOCK & WILCOX ON THE BOILER PORTION OF THE TENDER.

11. COMMENTS AND ACTION REQUESTED. WE ARE NOT POWER PLANT SPECIALISTS. THERE MAY BE NUANCES WE HAVE MISSED. PERHAPS G.E. IS REFUSING TO SUPPLY BECHTEL OR MCDERMOTT BECAUSE THEY WISH TO BID DIRECTLY THEMSELVES. IF LATTER IS THE CASE, FINE. BUT IF G.E. AND OTHER U.S. SUPPLIERS ARE REFUSING TO HAVE ANY PART IN THIS PROJECT, WE THINK IT IS TIME THAT HIGH LEVEL USDOC OFFICIAL DISCUSSED MATTER WITH SUITABLE COUNTERPART AT THESE FIRMS, URGING THEM TO ADOPT A "CAN-DO" ATTITUDE, RATHER THAN THE "CAN'T DO" APPROACH WE HAVE SEEN TO DATE.
MAESTRONE

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